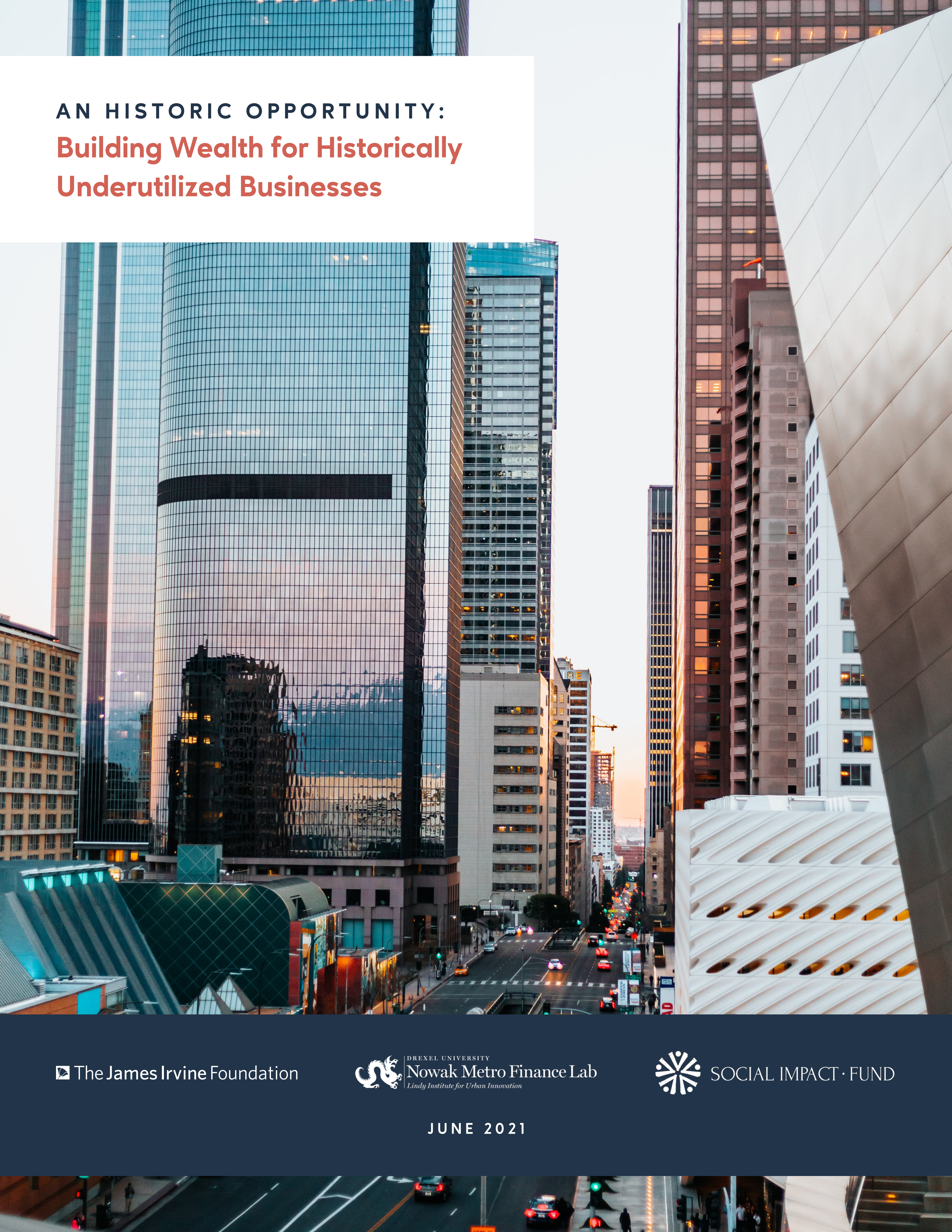
AN HISTORIC OPPORTUNITY:

Building Wealth for Historically Underutilized Businesses



The James Irvine Foundation

DREXEL UNIVERSITY
Nowak Metro Finance Lab
Lindy Institute for Urban Innovation

SOCIAL IMPACT · FUND

JUNE 2021

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Acronyms

COMTO - Conference of Minority Transportation Officials

DBE - Disadvantaged Business Enterprise

GLAAACC - Greater Los Angeles African American Chamber of Commerce

HUB - Historically Underutilized Business (Used interchangeably with DBE)

LA Metro - Los Angeles County Metropolitan Transportation Authority

LAWA - Los Angeles World Airports

LIT - Latinos in Transit

MBDA - Minority Business Development Agency

M&W - Merriwhether & Williams

MWBE - Minority and Women Business Enterprise

PNW - Person Net Worth

PPP - Paycheck Protection Program

SANDAG - San Diego Association of Governments

SBA - Small Business Administration

SBDC - Small Business Development Center (Part of SBA)

SBIC - Small Business Investment Company

SBTRC - Small Business Transportation Resource Center (Part of USDOT)

TEC - The Enterprise Center

USDOT - United States Department of Transportation

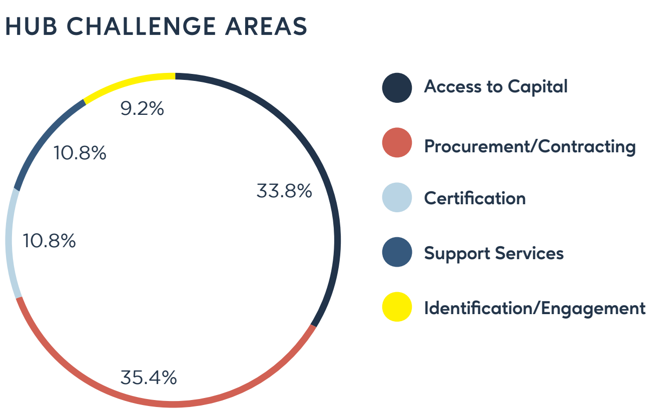
EXECUTIVE SUMMARY

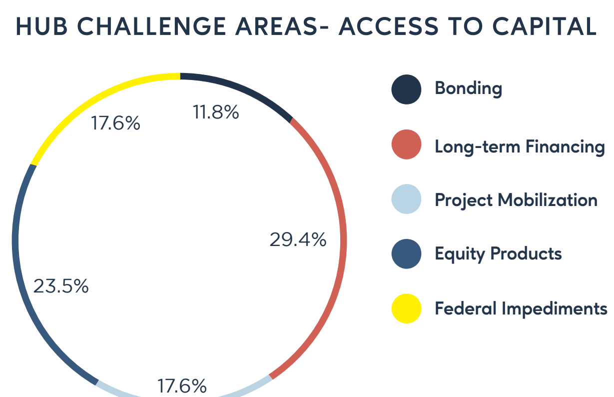
With support from the Irvine Foundation, this white paper proposes changes in historically underutilized business (HUB) procurement policy to close the nation's racial wealth gap. With at least one large infrastructure measure at the federal level in the offing, the HUB Project provides specific, actionable recommendations to change our country's paradigm to ensure that a generational investment in infrastructure is also a generational investment in small and minority owned businesses. Our analysis and interim prescriptions focus on the following questions about each relevant challenge for local decision makers:

- To what extent have HUB procurement and equity initiatives succeeded in creating and expanding prime contracts to entrepreneurs of color? Put another way, how have they succeeded in creating wealth for HUBs?
- Why have initiatives to include more HUBs in procurement failed? (i.e., Is it lack of vendors to supply services? Human or financial capital limitations? Institutional inertia? Other structural barriers?)
- Why have initiatives to include more HUBs succeeded?
- Who are the main actors or institutions responsible for implementation of these initiatives from start-to-end of HUB contracting?

Core HUB Challenges

Through interviews with a dozen local procurement and HUB leaders, the HUB team identified the following core challenges, identifying the highest barriers to growing Black and Brown wealth as expanding access to capital and the need to change procurement practices to facilitate prime contracting opportunities for HUBs. The following charts show both the overall HUB challenges as well as a deep dive into HUB challenges with respect to access to capital.





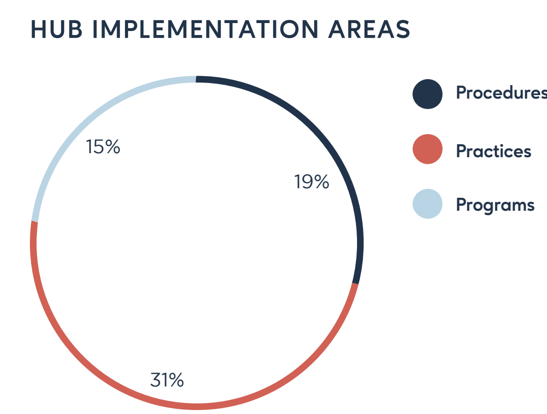
Challenge-Reform Matrix

The HUB team proposed reforms to address the identified challenges above. These recommendations are focused on the federal government, with future phases of this effort to focus more explicitly on local public agencies.

1. **Access to Capital:** HUBs cannot access financing for a variety of their business needs. The US Department of Transportation (USDOT) can partner with participating lenders to offer new financial products.
2. **Direct Contracting:** Small and minority owned businesses often do not have access to prime contracts. Direct contracts address this and facilitate business growth.
3. **Unify Supplier Diversity Efforts:** Local procurement practices are often fragmented and increase barriers for HUBs. A unified local effort would alleviate some of this difficulty.
4. **Raise Existing Cap Limits:** Existing net worth caps on definitions for disadvantaged business enterprises are outdated. Raising caps facilitates business growth.
5. **Burdensome Processes:** HUBs often spend a disproportionate amount of time on certification and other processes. Easing these often invasive requirements will allow HUBs to focus more on proposing bids and completing work.

Looking to Next Steps and Local Implementation

As the HUB team evaluated its work and plans for local implementation, the team organized policy changes into three categories: new procedures, new practices, and new programs, each with an increasing level of difficulty to implement. Procedures are lower-effort policy changes, while practices are more complex sets of actions implemented by a single agency, and programs require multi-stakeholder efforts. The figure below shows that the majority of local innovations are practices, followed by procedures and programs.



Using this framework, the HUB team's next phase will be to work with local public agencies for adoption of these policies, with our first targets being SANDAG (San Diego Council of Governments) and LA Metro. Changes in procurement policy will ensure that as local and state governments deliver projects supported by federal investments, they do so in ways that create a more equitable future, thus supporting wealth building for Black and Brown Americans.

Vision

National leadership including the president and congress, states, localities and the private sector has finally acknowledged the need to address the immense disparity in wealth created and held by HUBs, DBEs, and MWBEs. This problem exacerbates the nation's gaping racial wealth gap by allocating consistent public spending on majority-owned businesses. Fully addressing the procurement and business ownership disparity would create a generational transformation for the wealth for our nation's Black and Brown residents. The status quo is unacceptable: total revenue of Black-owned businesses in 2017 was $128 billion versus $11.6 trillion for white-owned businesses. Black-owned businesses generate just over 1% of the revenue of their white-owned counterparts. This harsh reality is due to our nation's largely failed policy paradigm over the last 50 years. It must be changed.

Funded by the Irvine Foundation, the HUB Project works in Philadelphia, Los Angeles and San Diego to do just this. Focusing on infrastructure in anticipation of the Biden Administration's historic public investment and taking into account state and local infrastructure spending, we provide specific, actionable recommendations to change our country's paradigm for supporting HUBs. **Success for the project is collaborative policy guidance at the federal, state, local and agency levels as well as providing replicable models of necessary intermediaries and relevant structures so that society creates intergenerational wealth among minority entrepreneurs and business owners.**

We began our work in April and expect to complete it by October with interim steps along the way. The key partners are Drexel University's Nowak Metro Finance Lab led by Bruce Katz with Colin Higgins and Andrew Petrisin, Phil Washington, former CEO of LA Metro, and HUB team leaders Jamarah Hayner and Rick Jacobs. Advisors include Steve Benjamin, Mayor of Columbia, South Carolina and John Porcari, former deputy secretary of transportation in the Obama administration.

Process

The HUB team interviewed DBEs, agencies, prime contractors, and DBE support organizations to understand the current state of play for the DBE program and broader minority contracting space. Through these interviews, the HUB team identified local contracting innovations to be adopted by other localities and adapted for the federal government, as well as core barriers for DBE success and growth. These deep dives in three first-mover cities (Los Angeles, San Diego, and Philadelphia) will inform replicability and scaling to other localities across California. The identified replicable practices will be codified for adoption by other localities; however, given imminent federal investments in cities and regions and the relatively short time frame in which to impact change at the federal level, our initial priority will be on the challenges and opportunities directly related to federal policy and entities that receive direct federal appropriations as they systematically innovate in HUB contracting.

Guided by local leaders and practitioners, the first HUB Initiative deliverable is this document, a user-friendly and clear analysis of procurement from HUBs in infrastructure projects. This white paper lays out the HUB team's initial findings and recommendations to be built on in later phases of this effort. Future work will expand to focus on entities that receive some amount of federal funding or strong-oversight (e.g., universities, utilities, hospitals) but which are by-and-large privately operated). While public sector spending may have 10% set-asides for HUBs, public spending is only 20% of the country's spending, meaning supplier diversity is uncommon in the country at-large.

LA Metro	Greater Los Angeles African American Chamber of Commerce
Conference of Minority Transportation Officials	Latinos in Transit
The Enterprise Center	Jacobs
Pacific Coast Regional	WSP USA
San Diego Association of Govern-ments	Merriwether and Williams

Addressing these core HUB procurement challenges is an urgent task for an inclusive recovery. If we want to build back better, we need to build back differently. Given the imminence of an infrastructure package in the second half of 2021 paired with the President's Executive Orders on racial equity in procurement and "Buy America," this work is both timely and critical to ensure a generational investment in the nation's infrastructure will also result in generational investment in Black- and Brown- owned business, in service of closing the racial wealth gap.

Challenge 1:

Access to Capital

The highest and most difficult obstacle for DBEs to overcome is access to capital. The GLAAACC survey on the following page shows that 45% of surveyed HUBs do not have a banking relationship. DBEs do not have access to the same financial system majority-owned firms do, and federal programs have been too limited in scope to address the problem. Whether it's raising a first round of capital, building long-term capital reserves, or raising capital to quickly staff-up and mobilize for a project, raising funds is more difficult for DBEs. Federally backed programs statutorily provide DBEs with financial products less sophisticated and less supportive than those often accessed by majority-owned firms. Moreso, there is no ecosystem of products, institutions, and advisory capacity for minority owned firms as there are in other emerging business spaces.

For example, when a HUB wins a major and potentially transformative contract for the business, it is difficult to access flexible financing to hire new staff and purchase new equipment necessary to fulfill the contract. This initial and key phase of project mobilization strains small business cash flow and is one of the core reasons HUBs either fail or simply cannot compete.

Even if a minority-owned business has the relationships, track record, and balance sheet to access capital, that capital is frequently provided via inflexible debt products. The US Department of Transportation's now-defunct Short Term Lending Program exemplifies this issue. The limitations on its use put the very businesses this program aims to help at a structural disadvantage compared to majority-owned firms. The Trump Administration discontinued the program, meaning it's due for a refresh under the Biden Administration and can be built back better to offer flebile debt and equity products to serve HUBs at all stages of their growth.

GLAAACC Survey

The Los Angeles HUB Landscape

We surveyed Black-owned businesses in Los Angeles to better understand barriers to growth for their businesses in the current contracting and financing environment.

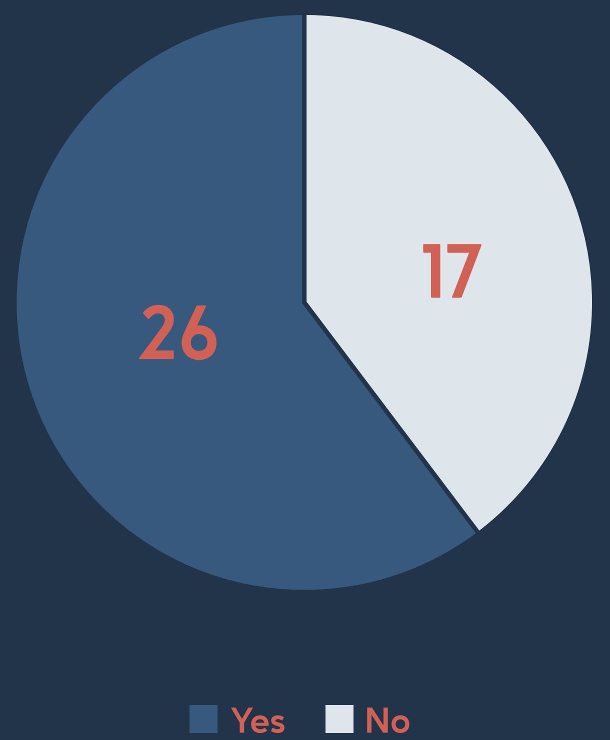
Have you participated in public-sector contracting? Why or why not?

Have you participated in public-sector contracting?

"I do not participate because of the hassle and slow pay."

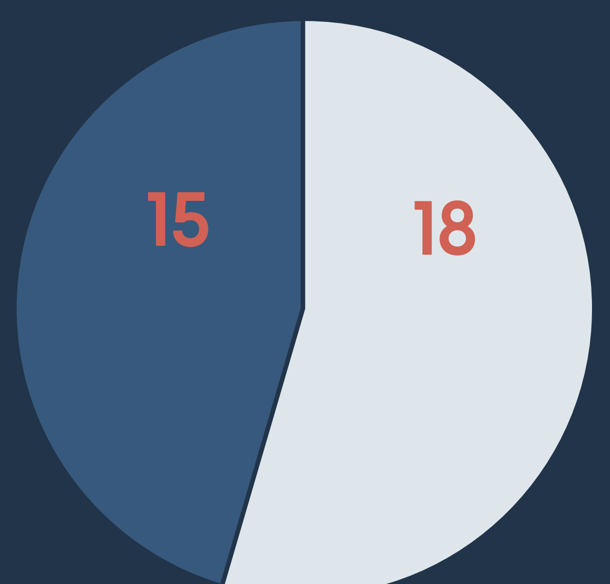
"No, it is too cumbersome."

"No, but happy to try with guidance."



Do you have a banking relationship that could lend you four payroll cycles?

45% of businesses surveyed do not have an established banking relationship.



Challenge 2:

Lack of Contracting Opportunities

Procurement--the process by which governments and the private sector buy goods and services--is the means to supplier diversity, and is the mechanism that shapes HUB involvement in various contracting scenarios. USDOT's existing 10% federal set aside for DBEs has inadvertently created an incentive system for minority-owned businesses to "get certified and stay certified" rather than "get certified and grow." Businesses with gross receipts that surpass $26.3 million seeking contracts through the DBE program are stuck between a rock and a hard place: they are too small to compete with larger firms and too large for the federal set aside. (In infrastructure projects that often run into the billions, total revenue of $26.3 million is a rounding error. It may sound like a lot, but when considering gross revenues, it is not.)

As currently constructed, the 10% set aside largely confines DBEs to subcontracting roles, meaning less project work, narrower operating margins, and less experience to someday exit the program competitively. In addition to this, the personal net worth cap for entrepreneurs participating in DBE programs has not been adjusted for inflation and does not account for geographical variance (despite the wide variation in cost of living across this country). The net worth cap, that is the maximum amount of net worth a HUB entrepreneur may have and still qualify for the set aside, is $1.32 million. This includes long-term savings and retirement accounts.

Similar to the separate financial system for majority-owned firms with respect to access to capital, there is a separate procurement landscape as well. Minority owned firms often are exclusively subcontractors, with few prime contracting opportunities, which again reduces margins for minority owned firms. The real money is prime contracting. If we care about closing the racial wealth gap, then we need to update how we contract for infrastructure projects, starting with addressing the incentives that inhibit growth in DBE set-aside programs.

> "Most agencies look to increase participation by subcontracting. This is not the best way, they have to compete with their peers to attract prime contractors.
>
> INGRID MERRIWHETHER | MERRIWETHER & WILLIAMS

Challenge 3:

Fragmented Local Procurement Processes

Localities face key challenges when trying to coordinate procurement across agencies: 1) federal funding has different requirements across agency types; and 2) there are few to no resources for coordinating local procurement efforts. This is why any supplier diversity efforts must have both local and federal policy changes.

Federal infrastructure spending flows to a balkanized set of special, often independent, public entities including school districts, city agencies and public authorities who will in-turninturn procure specific contracts from firms. The federal bureaucracy forces its way into localities through distinct procurement requirements.

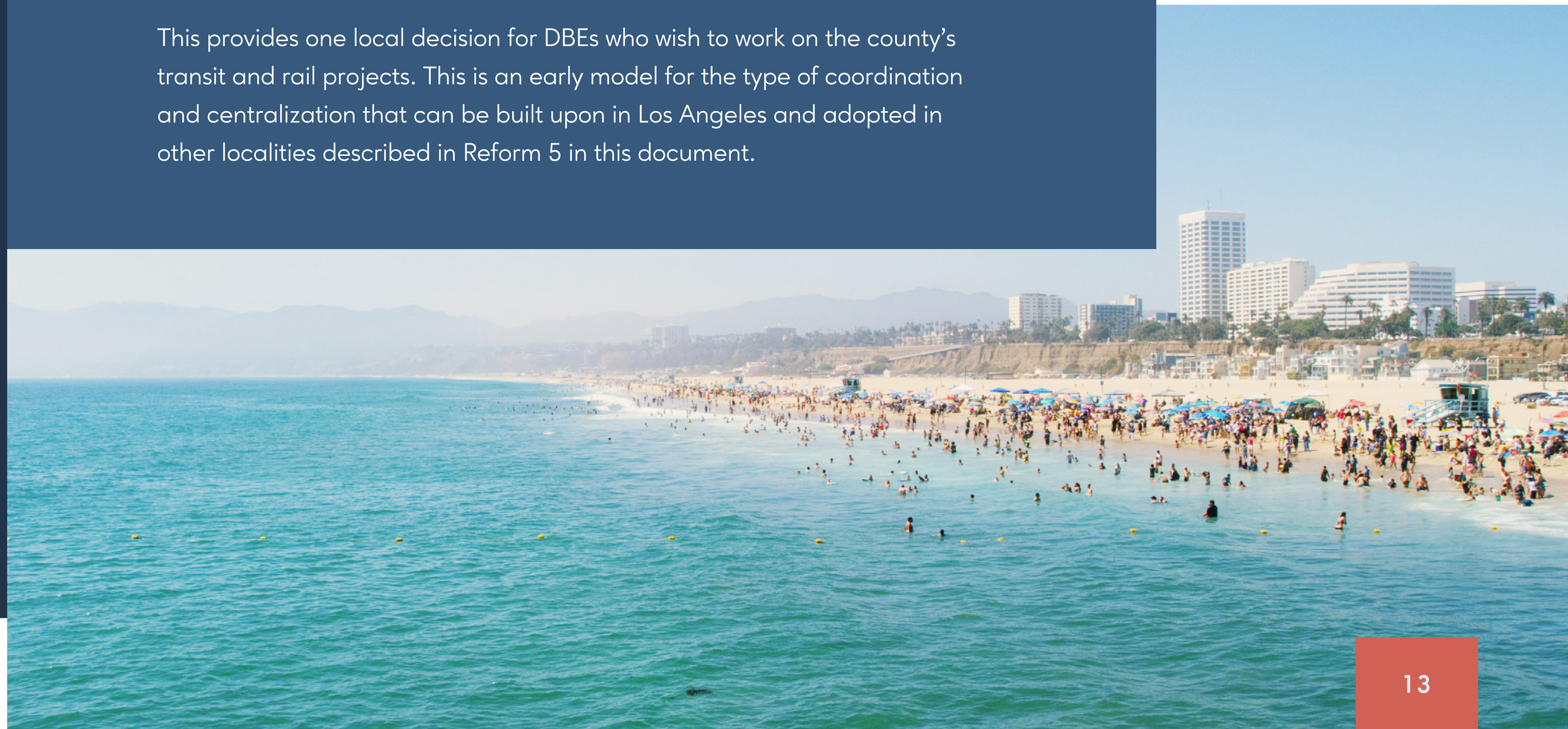
Locally, there is no unified approach to supplier diversity, meaning that the whole is less than the sum of the parts. In addition to the institutional issues this creates, it also leaves DBE firms filling out excessive ––often duplicative–– paperwork to qualify for similar contracts with different agencies. Local agencies have different definitions of minority-owned businesses (as well as differing lists of them), use separate processes for procuring goods and services and engage (or fail to engage) with different stakeholders in the ecosystem, including entrepreneurial support organizations and financial institutions.

Local Model

LA Metro MOU Reciprocity

To simplify the DBE certification landscape in Southern California, MetroLink (the regional commuter rail system) signed a memorandum of understanding with LA Metro so that LA Metro certifies DBEs for both agencies.

This provides one local decision for DBEs who wish to work on the county's transit and rail projects. This is an early model for the type of coordination and centralization that can be built upon in Los Angeles and adopted in other localities described in Reform 5 in this document.



Challenge 4:

Burdensome Processes

The process of getting and staying certified as qualified DBEs or MBEs is overly burdensome for many historically underutilized businesses.. Despite recent improvements that streamline the certification process and increase reciprocity across state-lines, certification is often cited by disadvantaged businesses as one of the highest hurdles to participation in public contracting. This is both because of the administrative burden and lack of technical assistance to meet cumbersome, redundant, and sometimes conflicting certification and compliance requirements –– especially considering that certifications often vary by agency and by state.

Frequently, the staff time or outside professional services support needed to complete certification paperwork rivals the amount of effort required by the largest prime contractors, which have greater resources ––by many orders of magnitude–– to afford backend operations. Many of these burdens stem from well-intentioned efforts to support historically underutilized businesses, but now perversely limit their access to contracts. Fortunately, the direly-needed reforms to certification are high-impact and can be accomplished with relatively-low effort by agency leadership.

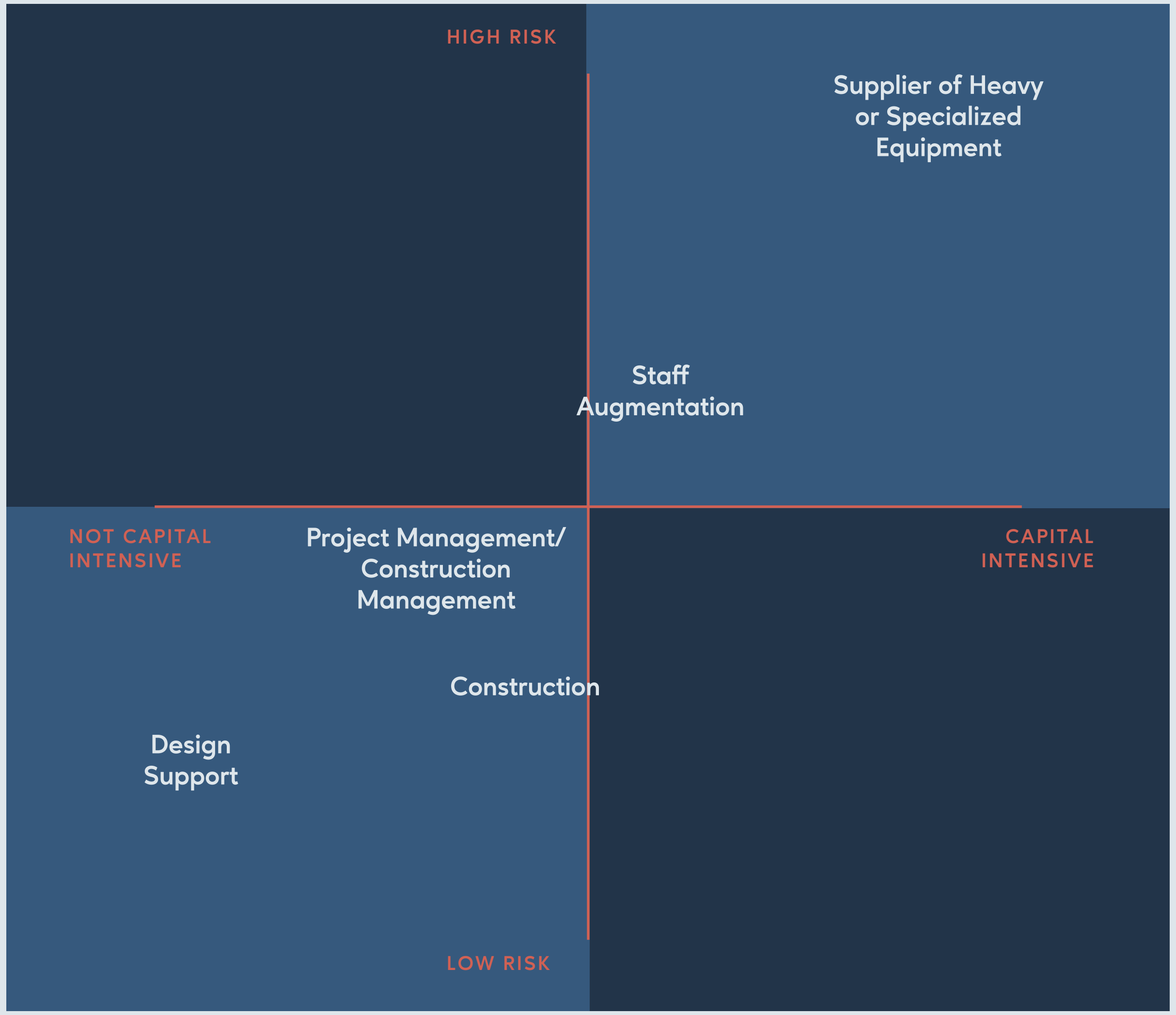
We have one person in our office that maintains all these certifications. “They are difficult and invasive”, other firms do not have to go through this.

MCKISSACK & MCKISSACK

Risk-Capital Matrix

The construction industry often involves high risk and capital-intensive contracting; this serves as a barrier to DBE firms entering the space. High profile projects are generally higher risk and more capital intensive, yet current program rules put equally outdated constraints on owners’ personal net worth and unrealistic ceilings on the firm’s annual average revenue. These restrictions limit DBE participation to some of the higher-utilized trades and industries.

The figure below identifies what some of those capital-intensive firm types are.



Challenge 5:

Lackluster DBE Target Enforcement and Supportive Services

The current federal process for meeting DBE goals relies on a system that lacks transparency and suffers from poor enforcement. This erodes trust, creates bad data, and is self-defeating. There are two areas where this problem is most pronounced. First, for each project funded by the federal government, prime contractors must undergo a "Good Faith Effort" to find a DBE that can meet the project's DBE goals. These efforts mean, in essence, that the prime contractor has tried its best to solicit bids from DBE firms. Frequently, prime contractors report that there are no small- and minority-owned firms that can do the work. This claim is often incorrect, but no countervailing structure exists to validate prime contractor reports. If no suitable DBE can be found through a good faith outreach effort, the prime is granted a waiver to self-perform the work in the contract. The lack of transparency in good-faith efforts often erodes DBE trust in the "good faith" of the efforts.

Second, firms selected as DBE subcontractors are often recipients of support programs such as mentor-protégé, which are focused on growing business acumen. These programs are set up so the prime contractor mentors the subcontractor on operational tasks like setting billable rates ––which the subcontractor then uses to bill the prime–– and business planning to grow into vibrant firms that compete against the prime. The problem is an inherent conflict of interest at the heart of these programs, which requires primes to negotiate against their own bottom line. On top of this, there is limited transparency into the treatment and outcomes of subcontracted partnerships for Black- and Brown-owned firms that partner with larger majority-owned suppliers, contributing to an erosion of trust in the DBE program's commitment to wealth building.

We have aggressively advocated for increases in DBE participation on federally funded projects, goals that have not changed in 40 years and are long out of date.

We believe it is also important to apply not just increased project goals but also to implement specific goals in high-profile but under-utilized trades and industries.

GW PEOPLES

Reform 1:

Support DBE Project Mobilization

Traditional lenders do not often have readily accessible lines of credit or debt facilities for contractors, particularly small contractors. Contract financing differs from loans from a bank in that it's underwritten based on the terms of the contract and the creditworthiness of the agency, rather than being based on the HUB's credit record.

Merriwether & Williams partners with PACE Finance Corporation as a financing partner for HUBs to access contract financing, who then disperses funding to the HUB up front to allow for work to proceed before progress payments are made. The funds are released as needed, not all up front, and funds are earmarked for the approved project only.

The contract Contract/Accounts Receivable used as collateral to PACE and interest and fees are required, but at below market rates. The order of payment is: bills (payroll, union, supplies, etc.) are paid first, then the lender, then profit.

Local Model

Contract Financing

Contract Financing is an alternative to traditional lenders who lack a lending appetite for contractors, particularly small contractors.

This financing technique allows for small businesses to receive capital up front to allow for work to proceed as needed, before any progress payments; however, the funds are released as needed, not all up front. These funds are earmarked for the approved project only.

The contract Contract/Accounts Receivable used as collateral and interest and fees are required, but below market rate. The order of payment is: bills (payroll, union, supplies, etc.) are paid first, then the lender, then profit.

Local Model Detail

Bond Guarantees

Bonding is often one of the largest impediments for HUBs to bid on projects. This not only hurts emerging businesses across the country, but also the agencies that let the contracts because there is less competition, which may well result in spending more money unnecessarily. In short, everyone loses, except the traditional, well-funded, majority owned incumbents. M&W, a minority and women-owned business based in Los Angeles, has for twenty years provided bond guarantees to HUBs in order to facilitate greater participation on city and agency contracts in California. Their work has led to savings of $10,638,782 for the City and County of San Francisco over the past 20+ years. The two examples below show how the services reduce bid costs for public agencies. The "Awarded Price" is the final price of the winning bid, and is the HUB firm assisted by M&W. The second bidder price represents the price the city would have paid, with the differential showing savings of 8%-15.7%.

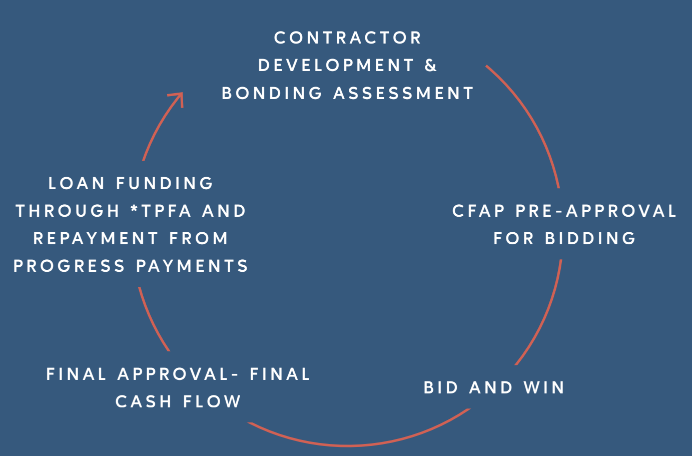
	BID ESTIMATE	AWARDED PRICE	2ND BIDDER PRICE	SAVINGS
Example Contract 1	$2,400,000	$2,307,848	$2,513,500	$205,652
Example Contract 2	$1,320,000	$1,233,052	$1,463,612	$230,560

Figure 1: DBE Participation Savings Results

M&W is now piloting contract financing to further support HUBs (noted on the previous page). They have an MOU with both LA Metro and LAWA to do so. Contract financing allows for upfront payments to a HUB before they have completed work. This directly addresses one of the core challenges from the interviews— project mobilization. Upfront payments assist HUBs with their cash flow before they would typically receive a progress payment, often a prohibitive impediment for HUBs as they staff up to take on a newly awarded contract.

Process Flow For CFAP

Real Access to Capital...



$10,638,782 saved for the City and County of San Francisco

Reform 2:

Ensure small businesses are paid on time

After a HUB wins a contract and begins its work, the structure of payments inhibits success because often they do not receive on-time payments for work completed. This challenge is felt most acutely by small- and minority-owned businesses, and exacerbated by their predominant status as subcontractors. While large firms likely have the working capital to manage late payments, small- and minority-owned businesses often don't have the working capital necessary to account for these delays. Existing federal statutes require prime contractors to pay their subcontractors within thirty days after they (the primes) are paid. Since most HUBs are subcontractors, this delay upon delay can make the work untenable.

Since many local agencies have a shorter time frame of around seven days to pay contractors, Congress should look to localities for best practices. Congress should change the existing federal statutes to require payment within seven days or move to a model wherein primes must pay subcontractors upon completion of work. Thus, the well-capitalized primes will front the money to the subcontractors. This change, while subtle, will ensure that subcontractors maintain the working capital needed to grow and succeed. Legislators should also explore models that allow contracts to be awarded with 15- to 30- day payment advances to improve the working capital for small business owners –– a practice often used in the private sector to support cash flow.

Reform 3:

Unbundle Projects and Enable Direct Contracting

As noted in Challenge 2, HUBs have difficulty accessing prime contracts to facilitate their growth and maturity. Unbundling projects and enabling direct contracting will incentivize small and minority owned businesses to “get certified and grow” rather than staying small. It will do so by providing: (1) access to prime contracting opportunities; and (2) a long-enough runway--an effective transition period-- for firms that grow beyond gross receipts of $26.3 million to exit sheltered bidding programs and thrive in an open bidding environment. These changes are necessary for HUBs to grow through the “missing middle” of infrastructure contracting.

Direct contracting sets aside certain sizes of projects for small- and medium- sized businesses, facilitating prime contracting opportunities for these firms. By unbundling projects, small firms have increased access to bid, increasing the competitiveness of bids ultimately at a lower cost to the agency. The federal government can condition its federal financial participation on states and localities utilizing direct contracting for emerging businesses, mandating a 10% set aside in addition to the existing 10% set aside for DBEs. Thus, the federal government would hit its goal of 20% contracting to small- and medium- businesses and significantly grow the participation of and wealth created by HUBs.

Local Model

Community Level Contracting[1]

To improve the City’s procurement for small business, the City of Los Angeles’ Bureau of Contract Administration developed a Community Level Contracting program that unbundles contracts to be more accessible for small business. Unbundling is the process of breaking up large procurements into multiple smaller work packages to provide opportunities for small businesses to bid as prime contractors.

The City to date has procured two projects through Community Level Contracting: 1) Los Angeles Department of Transportation’s Small Sidewalk Repair Service Contract; and 2) Bureau of Sanitation’s Mobile Fleet Washing Services. For the Small Sidewalk Repair Contract, two-thirds of contractors were first-time bidders with the City.

TRADITIONAL PROCUREMENT	UNBUNDLED PROCUREMENT
1 Large Contract	13 Smaller Contracts
Samll Firms as Subcontractors	12 Small Firms as Primes

[1] What is Community Level Contracting?, http://clkrep.lacity.org/onlinedocs/2018/18-0879_misc_6-19-19.pdf

Reform 4:

Raise the Personal Net Worth Cap and Provide Advisors

The personal net worth (PNW) cap, a requirement to qualify as a DBE, has not been raised in over a decade. This directly inhibits efforts to close the racial wealth gap by punishing successful entrepreneurs of color. Congress and the administration should raise the PNW cap from $1.32M to an inflation adjusted $1.52M and tie it to inflation moving forward. Congress should also change statutes so the DBE program follows the same PNW calculations as SBA programs, excluding long-term retirement accounts from consideration. Currently the system is set up to disincentivize retirement savings for successful DBEs seeking to maintain competitive bidding status. This set of regulations provides a perverse incentive for entrepreneurs to invest as much as possible in their primary residence rather than diversifying via retirement savings.

Second, firms selected as DBE subcontractors are often recipients of support programs such as mentor-protégé, which are focused on growing business acumen. These programs are set up so the prime contractor mentors the subcontractor on operational tasks like setting billable rates ––which the subcontractor then uses to bill the prime–– and business planning to grow into vibrant firms that compete against the prime. For even the best intentioned prime contractors, this creates an inherent conflict of interest. If a subcontractor recognizes its true value and billable potential, that negatively impacts the prime contractor’s bottom line. Similarly, if a subcontractor really learns how to become a prime, the mentor has just created a new competitor. These programs need reevaluation to provide HUBs with appropriate advisory services for different areas of their business needs. On top of this, there is limited transparency into the treatment and outcomes of subcontracted partnerships for Black- and Brown-owned firms that partner with larger majority owned suppliers, contributing to an erosion of trust in the DBE program’s commitment to wealth building.

Reform 5:

A Unified Supplier Diversity Unit

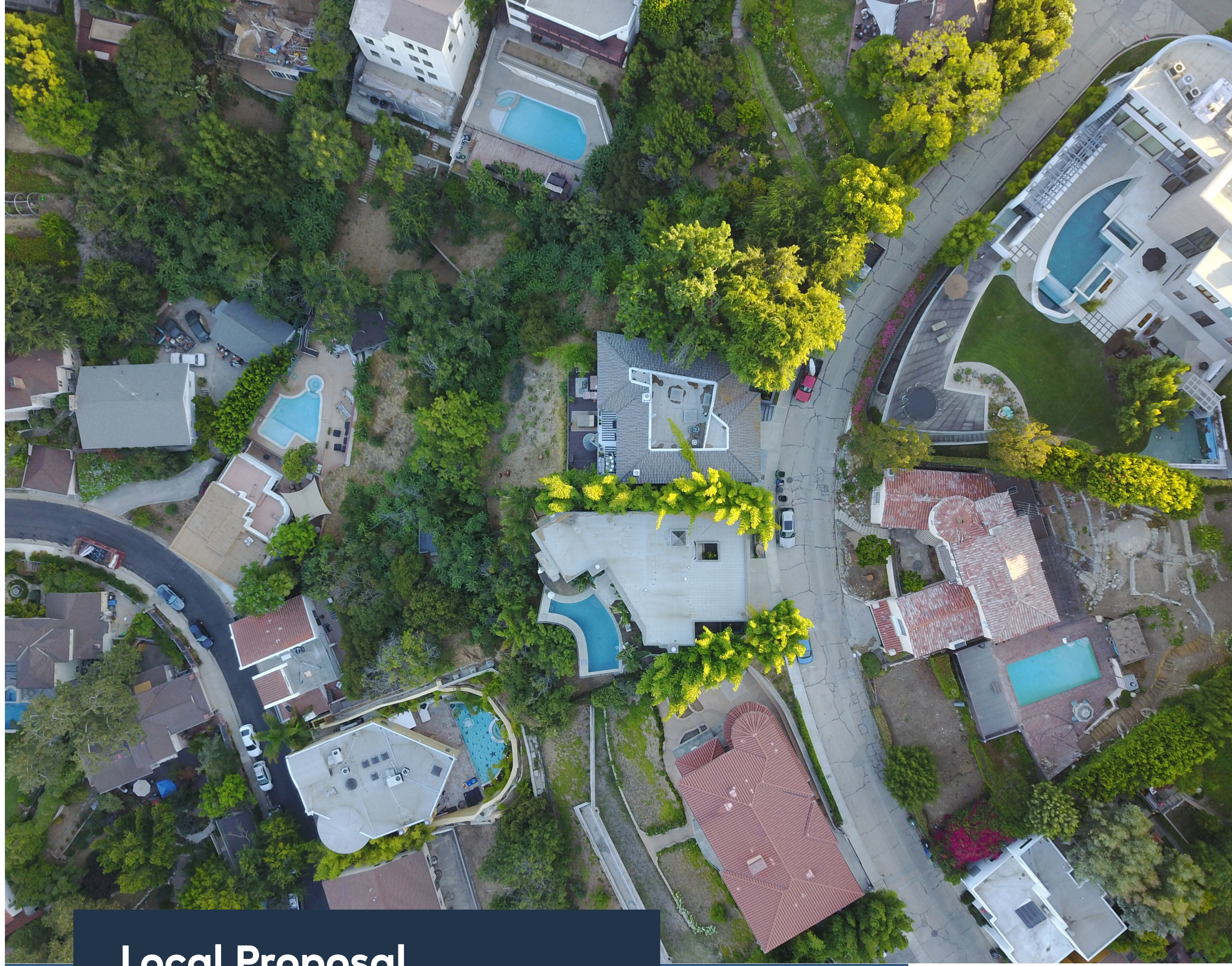
The federal government currently has several local and regional intermediaries (the SBA's SBDCs, the Department of Commerce's MBDA, and the USDOT's SBTRCs, among others) to help DBEs access contracts and grow. However, these intermediaries are often underfunded and poorly coordinated with each other ––let alone across the federalist landscape of state, local and county agencies they must work with to truly drive business equity in contracting. Often this results in a process that is onerous for business-owners and which has limited impact in closing the racial wealth gap through procurement. As part of its increased DBE procurement targets, the Biden Administration announced that "agencies will assess every available tool to lower barriers to entry and increase opportunities for small businesses and traditionally-underserved entrepreneurs to compete for federal contracts."

We encourage the Administration to ensure that agencies focus on procedural barriers to equitable contracting. They could do this by building on their already announced first-of-its-kind interagency task force on home appraisal by adding a twin mission of establishing uniformity in the federal contracting process for DBEs. The Administration should require all agency heads participating in the task force to complete two tasks:

1. All participating Agency heads should begin, or accelerate, the streamlining of certification and compliance processes and portals, prioritizing user interface for disadvantaged businesses as well as eliminating unnecessary steps such as in-person notarization, when other legally appropriate options are available. These are already well-documented barriers with simple solutions that make sense to implement.

2. All participating Agency heads should report back on findings on agency-specific and cross-agency barriers to equitable contracting and recommend solutions within 90 days.

We envision this second task resulting in the creation of a unified supplier diversity unit situated within the White House Office of Management and Budget. This unit would coordinate and centralize the advisory, matchmaking, reporting, and financing functions of existing supplier diversity intermediaries through a single platform.



Local Proposal

Philly Supplier Diversity Model Intermediaries

The proposed **Supply Philly Initiative** is designed to steer a substantial volume of federal infrastructure dollars to support, strengthen and grow local Black- and Brown-owned businesses. The Initiative would create a new **Supplier Diversity Hub** to work with a broad array of infrastructure agencies in Philadelphia to alter procurement practices in service of business equity. The new Hub would also work in close concert with a new **Supplier Diversity Consortium** to ensure that potential vendors get the business coaching and quality capital they need to meet procurement demand. The Hub would finally drive the creation of a **Supplier Diversity Marketplace**, to bring transparency in goal setting and reporting across multiple infrastructure agencies. The total platform funding for these efforts is estimated at $20 million over 4 years.

CONCLUSION

This white paper lays out existing challenges to HUBs both generally and specifically in the Southern California region. We aim for this document to be used as a guide for federal policymakers in developing new procedures, practices and programs to close the racial wealth gap in the United States. This white paper also lays the groundwork for future efforts of the HUB team to fundamentally change minority owned- and small- business contracting.

	Reform 1	Reform 2	Reform 3	Reform 4	Reform 5
Challenge 1	X	x		x	
Challenge 2			x	x	
Challenge 3					x
Challenge 4			x		x
Challenge 5		x	x		x

Table 1: Alignment of Challenges and Reforms

The next phase of our work will focus on supporting additional localities and scaling best practice solutions to other agencies, first focused on an exchange of solutions between SANDAG and LA Metro. We believe that when one HUB leader develops a workaround, others should be able to quickly and successfully also implement the same changes. Some of these have been detailed throughout this paper, including:

- LA Community Level Contracting
- Pilot Contract Financing
- Medium Size/Small Business Prime Programs
- Local MOUs for certification
- Supplier diversity intermediaries

Simply put, helping scale these solutions from HUB leaders to HUB fast-followers requires an intermediary to facilitate a policy transfer. Our next goal in this effort starts moving in this direction. Our next goal is to ensure that the agencies participating in this HUB project are able to swiftly adopt some of the best practices highlighted above.. To facilitate this adoption, the HUB team has begun separating policy changes into: 1) procedures, 2) practices, and 3) programs. Procedures are changes that can be made by the stroke of the pen that often lessen burden on HUBs, while practices are sets of actions that can be implemented by a single agency, and programs require multi-agency efforts. This framework will guide the next phases of the HUB project as we apply it to help agencies solve locally specific problems in adopting wealth-building procurement reforms.

While the grantees do not advocate for "lobbying," there is a necessary public information aspect of the next phase of work. Attached as an appendix is the memo we sent to the White House Domestic Policy Council, with whom we are in frequent contact. We could well imagine a follow up meeting with leaders such as Congresswoman Karen Bass and other policy/thought leaders to determine how best to implement our recommendations now and as the project continues. This could also be in conjunction with a funder convening as suggested in appendix B.. In short, our collective goal is to change the system. We need to use all tools at our collective disposal to do so.

We also see a significant need for new forms of intermediaries, whether along the lines of "Supply Philly" or other concepts. HUBs lack ready access to capital, both short and long term. We believe another important phase of our work should take this on directly. We have a rare opportunity to use this moment in history not just to encourage change at the governmental level, but also to match need with capital. We do not imagine this to be an "investment bank" or anything of the sort. The capital exists, but it does quickly enough get into the hands of those who can employ, grow and create intergenerational wealth. This phase of work could potentially result from a funder convening on these subjects.